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C O N F I D E N T I A L ALGIERS 001741

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TAGS: ECON EFIN IBRD AG
SUBJECT: WORLD BANK OFFICE CHIEF LEAVING ALGERIA CITING
LACK OF ECONOMIC REFORM

Classified By: Ambassador Robert Ford, reason 1.4 (b) and (d)

¶1. (C) Summary: The World Bank is withdrawing its resident office director (resrep) here, since the Algerian government appears uninterested in implementing new reform strategies. The resrep, a long-time observer of Algerian economic issues, told the Ambassador November 21, that President Bouteflika seems unwilling to delegate genuine authority to any official to coordinate economic policy, and that with its foreign exchange reserves bulging, the GoA is not inclined to move forward quickly on reforms generally. Instead, the GoA appears to concentrate its hopes on its huge, USD 120 billion infrastructure construction program. The resrep said the World Bank had concluded the program would help some, but its utility was limited by dismal planning and project management. The economic outlook for sustainable, private-sector-driven growth in the non-hydrocarbons sectors of the economy is still poor, the resrep concluded. The withdrawal from Algiers of the World Bank resrep, an important economic reform advocate, will make it all the more important that Algeria's key partners, such as the U.S., keep raising economic reform issues. End Summary.

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WORLD BANKER SEES DISARRAY IN ALGERIAN ECONOMIC POLICY
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¶2. (C) Yves Duvivier who was the World Bank resident representative for three years (please protect source throughout) told the Ambassador on November 21 that the Bank was recalling him to Washington. The Bank had decided, he said, not to keep a resrep in Algeria any longer. The Algerian Government was not working on many reforms and appeared entirely disinterested in working with the bank on new reform avenues. Duvivier commented that the surge in Algerian energy export prices had given the GoA an abundance of foreign exchange reserves and robbed the GoA of any sense of urgency in addressing structural economic problems.

¶3. (C) Duvivier noted that there is no one truly in charge of economic policy in Algeria now. Minister of Industry and Private Investment, Temmar, wants to be the key official, but Duvivier told us that Temmar confided to Duvivier privately this autumn that Bouteflika was ambivalent about empowering Temmar. Duvivier said that while Energy Minister Khelil is influential on energy issues, and Finance Minister Djoudi is on specific government bQet issues, there is no broad coordination between stove-piped ministries.

¶4. (C) Duvivier opined that there is no one in the Algerian government with a vision of how the Algerian economy could be in terms of growth driven by diversified private investments and a liberalized business climate. The World Bank receQd a request from Minister Temmar, in 2005, for detailedQQsessments of how other countries had diversified their export bases. The bank team provided studies about China, India and Malaysia and the resrep offered repeated bank team meetings with the Algerian government afterwards to flesh out Algerian thinking. The Algerian government to date has never responded. Temmar told Duvivier that the Algerian government wants to revive its old Planning Commission (Commissariat du Plan) to be responsible for working out strategies, but the Commission is still moribund. The World Bank identified specific sectors, such as ports and port management, that hinder economic growth but found the Algerian government reluctant to address them due to political sensitivities (corruption). Duvivier concluded that Algeria's business climate will stay mediocre, and the chances of sustainable, private-sector-driven growth will stay limited. One Algerian official told Duvivier in the summer of 2007 that the World

Bank should stop comparing Algeria's business climate to that in other countries; Algeria, this official allegedly stated, is not a "results-driven" country.

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HUGE INFRASTRUCTURE PROGRAM OF LIMITED UTILITY
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¶5. (C) In the meantime, Duvivier concluded, the Algerian government makes economic decisions on a day-by-day basis with little thought to medium or long-term consequences. He highlighted that the Algerian government's huge infrastructure program (which President Bouteflika's calls the Algerian Economic Growth Support Plan and so far totals

about USD 120 billion) is, in fact, a collection of scattered projects that are not integrated into a broad strategy. Many of the projects were dusted off the shelves where they had waited for years. Some of the infrastructure projects may be useful; others probably will not be. Duvivier noted that in its recently published report on the Algerian government expenditures and the infrastructure program, the World Bank concluded that public investments in Algeria were relatively inefficient compared to neighboring countries, and that the Algerian government should slow down its infrastructure programs to allow for better management of ongoing projects. (Duvivier noted that the World Bank had to water down its criticisms substantially in order to secure Algerian government agreement to release the report, and it still took nearly two years to get the approval in August 2007.)

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SOME POSITIVE STEPS BY ALGERIAN GOVERNMENT
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¶6. (C) Duvivier pointed to some positive changes. The privatization of the large state-owned bank, Credit Populaire d'Algerie, would be a major step forward. (Comment: On November 27, the government officially announced the postponement of this privatization. End Comment.) Duvivier also said that with World Bank help, the Algerian Government had finally privatized urban water system management, which should result in substantial improvement for the populations of Algiers, Oran and Annaba. He said the Algerian government was inept in its first water system privatization, that of the Algiers system, and there were genuine questions about the transparency of the process. The Algerian government improved its technique substantially for the subsequent privatizations in Oran and Annaba, the resrep stated.

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SOME OTHER AGENCIES LEAVING TOO
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¶7. (C) Duvivier said the Bank is withdrawing him, because its project portfolio has dropped from 13 projects early in this decade to just one now (the remaining project aims at building Finance Ministry administrative capacities). Duvivier commented that he was sure that some Algerian government officials were pleased, since they are tired of World Bank nagging behind closed doors. Other officials, in contrast, were surprised that the World Bank will not keep a resrep here. Duvivier noted that several United Nations agencies also are withdrawing their representatives from Algiers, including the International Labor Organization. This is partly due to their inability to secure much change in Algerian policy and practice, and partly as a cost-saving measure. Looking forward, Duvivier noted that the World Bank has formally proposed to the Algerian government that the Bank set up a Partnership Agreement with the ministries of Finance, Health, Rural Development and Industry/Private Investment, and with the Central Bank and the think-tank National Economic and Social Council to help each of these Algerian entities with their own projects. Duvivier said the World Bank is waiting for an answer.

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COMMENT
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¶8. (C) We know Duvivier from the 1990s when, as a World Bank project officer, he helped fund a cooperative agreement between the Algerian Finance Ministry and Fannie Mae in the U.S. to help establish an Algerian mortgage guarantee agency. (This agency now is ineffective and a U.S. Treasury OTA project will try to help.) He was well connected in Algiers and is not inclined to excessive pessimism. His analysis of the weakness of Algerian economic policy is very similar to what Ambassador heard December 2 from the CEO of one of Algeria's largest private-sector industrial conglomerates who bemoaned that no one in government here can make binding decisions on commercial policy issues except Bouteflika himself. The lack of urgency that Duvivier sensed is quite apparent to us, and the departure of an IBRD resrep here takes away an influential advocate of reform. The Bank's International Financial Corporation will maintain a representative but our sense is that Duvivier was really

trying to channel Algerian efforts into useful reforms. His absence will be a loss. That, in turn, makes it all the more important that Algerian's key economic partners like the U.S. keep raising microeconomic and structural reform issues ourselves.
FORD